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ASIA-PACIFIC ECONOMIC SURVEYS: BURMA

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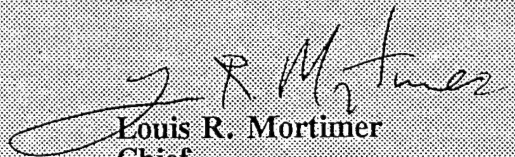
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Summary

Since 1 April 1986, a date that marked the start of the new fiscal year (FY) 1986-87 and the beginning of the Fifth Four-Year Plan (1986-90), the Burmese economy has deteriorated rapidly. It has suffered from a slowed growth rate, double-digit inflation, shrinking export earnings, rising foreign debt, and diminishing foreign exchange reserves. In spite of its rich natural resources, Burma ranks among the world's poorest nations, with a population of 38 million, a per capita income of only US\$180 per year, and a manufacturing output of less than 10 percent of gross domestic product (GDP). The reasons for this dismal state of the economy range from unfavorable international conditions to serious insurgency problems, widespread illegal trade, unenlightened government policies, administrative mismanagement, and self-imposed political isolation from the world.

The outlook for the remainder of fiscal 1987-88 (ending 31 March 1988) is grim because the country faces a very poor rice harvest this year, severe shortages of basic commodities, student riots in protest against the September 1987 demonetization of bank notes, and increased guerilla activities in the countryside. Worried about the crisis, Ne Win, the powerful chairman of the ruling Burma Socialist Programme Party, has urged a reappraisal of the "Burmese way to Socialism" and called for political, social and economic reforms. The extent to which the government will change its basic policies and restructure the country's economy to make it more productive and efficient remains uncertain.

GDP: Slow Growth

According to Burmese government statistics, the country's economy realized a slow growth of only 3.6 percent in FY1986-87 (April-March), a sharp decline from the 6.2 percent increase of the previous year and below the revised target of an average annual growth rate of 4.5 percent for the Fifth Four-Year Plan (1986-90). In August 1985, the Fifth Congress of the Burma Socialist Programme Party set an official average annual growth target of 6.1 percent for the Fifth Plan. After a meeting with the World Bank and creditor countries in Tokyo in January 1986, the original target was reduced, and the official estimate is now 4.5 percent for the Fifth Plan, compared with an actual average annual growth rate of 5.5 percent during the previous Fourth Plan (1982-86).

Budget Deficit, Inflation, and Demonetization of Bank Notes

Burma's economy faces major structural imbalances in its external sector and public finances. Growing foreign debt, high debt service ratio, declining export earnings and low foreign exchange reserves have reduced imports of capital goods, raw materials, and spare parts for industrial production. As a result, most factories function at low capacity, and several are closed. Internally, the continuing deficit of the state economic organizations has been financed by massive bank borrowings, which have led to monetary expansion and inflation. The Burmese authorities have responded to the economic deteri-

oration of the nation with a series of restrictive measures, such as the Demonetization Laws that invalidated the 20, 50, and 100 kyat bank notes in November 1985 and the 25, 35, and 75 kyat notes in September 1987. These two ordinances were intended to curb inflation, stop the growing black market, and destroy the financial base of the insurgents, who mainly use the big-denomination currency notes. However, because the demonetization measures were hastily announced and badly implemented, the population became confused, the economy was disrupted, and the government failed to achieve its objectives.

Trade Imbalance: Shrinking Export Earnings

The official budget for FY1986-87 (ending 31 March 1987) projected a trade deficit of kyat 1.4 billion (over US\$200 million), the 10th consecutive deficit since FY1977-78. Balance of payment statistics show that Burma's export earnings have steadily decreased from a high of kyat 3.463 billion in 1981 to only kyat 2.201 billion in 1986, mainly because of the recent decline in world prices for the country's traditional and primary commodity exports. According to International Monetary Fund (IMF) 1986 figures, rice exports increased 34 percent in volume over 1985, but fell nearly 1 percent in value. Teak exports surged 11.5 percent in volume from the previous year, but fell over 1 percent in value. Overall balance of payments recorded a deficit of US\$22.6 million in December 1985, and long-term capital inflows amounted to US\$132.4 million for the same year.

Since 1973, Rangoon has received various loans, grants and technical assistance from the United Nations (UN). The Burma Aid Group is composed of Japan (the largest aid donor), West Germany, the United Kingdom, Australia, the United States, the United Nations Development Program (UNDP), and the World Bank. At a meeting in Tokyo in January 1986, the Group pledged US\$535 million of aid for 1986 and US\$350 million in 1987, higher than the pledges made in previous years. On 7 July 1987, Japan agreed to provide a grant of yen 4.974 billion (about US\$35.5 million) for FY1986-87 and 1987-88. Ten days later, West Germany signed an agreement providing a general commodity loan amounting to DM27.3 million (about US\$15.2 million) to be utilized for procurement of raw materials, spare parts, agricultural machinery, and industrial products. The loan bears no interest, only a service charge, and is repayable in 50 years, including the grace period of 10 years.

Heavy Debt Burden: Near Default

Foreign debt rose sharply to US\$4.2 billion at the end of March 1987, up from just US\$1 billion in 1979. At the same time, foreign exchange reserves listed by the IMF at US\$253.7 million in 1980 dropped to a dangerously low level of US\$35.3 million on 31 March 1987, barely enough to cover one-month imports. The debt service ratio relative to exports was believed to be as high as 90 percent in FY1986-87. Faced with debt default or debt rescheduling, Rangoon applied for the UN status of a least developed country (LDC) in March 1987, hoping to receive relief measures for its external debt and various forms of assistance from developed countries under the UN system.

Major Production and Trade Items

Agriculture is the mainstay of the Burmese economy, accounting for 48 percent of GDP in FY1986-87. Rice is the principal component of this industry, with production reaching 15.22 million metric tons in FY1986-87, up about 0.9 million metric tons from the previous year. In 1987, however, Burma is struggling with a potential rice shortage because of bad weather and a change in the rice distribution system in 1986, which encouraged farmers to sell rice illegally at higher prices to Thailand and neighboring countries. On 1 September 1987, the government lifted a 21-year-old ban on free trade of 9 basic commodities (rice, maize, and 7 kinds of beans and pulses). In a move aimed at alleviating the severe food shortage, the new order allows all Burmese citizens to "buy, transport, store, sell, and transfer" the above-mentioned crops within the country.

Foreign exchange earnings by the agricultural sector amounted to roughly 40 percent of total exports. In calendar year 1986, the Soviet Union was Burma's largest rice purchaser, with a total contract of 190,000 tons, most of which was shipped to Vietnam as part of Soviet aid to Hanoi. Rice export earnings fell in FY1986-87 because of unfavorable terms of trade and a continuation of depressed world prices.

Forestry constitutes the second pillar of the economy. Burma has the world's largest yield of hardwood trees. In 1986, teak output totalled 410,000 tons, up from the previous year's 384,000 tons. Total hardwood production rose to 700,000 tons from the previous year's 572,000 tons. As the world's leading exporter of teak, Burma supplied about 75 percent of the world market in 1985. Since FY1984-85, the country's teak exports have replaced rice as top foreign exchange earner.

The mining sector is important but remains underdeveloped despite the country's wealth of proven mineral resources. Besides oil and natural gas, significant mineral products include tin, tungsten concentrates, gems, copper, and coal. Burma is rich in oil and natural gas, which have remained largely untapped because of lack of capital and technology. In 1981, three commercially viable oil fields were discovered off the coast with estimated reserves of 1.717 billion barrels. Onshore reserves of oil stand at approximately 400 mn barrels. In 1983, a significant find of natural gas was located in the Gulf of Martaban, and onshore natural gas has been estimated at 1 to 2 trillion cubic feet. These oil and natural gas fields were not further explored nor exploited because of financial constraints, the world oil surplus, and the uncertain market for gas-derived petrochemical products.

Official imports consist mostly of capital goods, raw materials, and spare parts for industrial use. Machinery and equipment have accounted for 40 percent of all imports, whereas consumer goods have usually equalled only about 7 percent.

Principal Trading Partners

Burma's major trading partners are Japan, West Germany, the United Kingdom, Hongkong, Singapore, and China. Japan is the leading trade partner, accounting for 34 percent of Burmese imports. Recently, the government has shown an active interest in regional economic cooperation with neighboring countries (Bangladesh and Sri Lanka) and ASEAN nations, as demonstrated by the visits of Prime Minister Maung Maung Kha to Indonesia and Malaysia this summer.

Black Market, Drug Traffic, and Insurgency War Drain the Economy

A 40-year-old insurgency still plagues Burma and affects the government's economic planning and development. The black market is estimated to account for roughly 80 percent of the retail trade and is responsible for the rising price of foodstuffs and high inflation. Another impediment to economic progress is the illegal drug traffic that forms the main source of revenue for the rebels. Burma is the largest producer of opium in Asia. For the most part, the opium-growing areas (Shan, Kachin, Chin, and Kayah states) are controlled by various insurgent groups. Opium poppy production has expanded in recent years, and is expected to increase by 50 percent in 1987, from 600 to 900 tons, according to Khun Sa, the leader of the drug smuggling Shan State Army. In June 1986, Rangoon received a grant of US\$10.5 million from the UN Fund on Drug Abuse Control to support a five-year anti-narcotics program.

Economic Importance to the United States

US Department of Commerce statistics indicate that trade with Burma has been of minor importance to the American economy. In calendar year 1986, US imports from Burma amounted to US\$15.4 million (down from \$17.9 million in 1982), and US exports to Burma were US\$13.7 million (down from \$33.7 million in 1982). Thus, two-way US-Burma trade totalled US\$29.2 million in 1986, leaving Burma with a trade surplus of US\$1.6 million.

In 1986, major US imports from Burma consisted of shrimps and prawns (US\$4.1 million), teak (US\$3.5 million), and men's cotton sport shirts (US\$1.8 million). Main US exports to Burma included selected pharmaceutical preparations (US\$4.5 million), fertilizers (US\$1.6 million), and flight simulators and parts (US\$635,000).

Defense Budget

The military budget has consistently accounted for 20 to 22 percent of total government expenditures, reflecting a protracted insurgency problem. The defense budget for the fiscal year ending 31 March 1987 was about US\$249.48 million, representing 21.7 percent of the national budget. The biggest item of the budget was earmarked for current expenditures in pursuing military operations against the communists and ethnic rebels. Little emphasis was placed on the acquisition of major weapons systems. Actual expenditures may have been higher because additional purchases of expendable items such as

ammunitions, mortars, rockets, small arms, and spare parts--required to fight the insurgents--are not usually included in the defense budget. US military assistance to Burma consists of grant aid and IMET (International Military Educational and Training). For the fiscal year ending September 1987, the Reagan Administration requested US\$350,000 in IMET funds (compared to the estimated US\$239 for FY 1986) and US\$1.0 million in grant-aid funds for the first time. The grant-aid funds are to be used for the purchase of M-16s rifles and other small arms, and the acquisition of fixed-wing cargo aircraft or helicopters to improve airmobile capability.